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TAGS: [ECON](#) [ETRD](#) [PREL](#) [RS](#) [WTO](#)

SUBJECT: RUSSIA: WTO AND CUSTOMS UNION "IN PARALLEL"

REF: A. MOSCOW 1939

[1](#)B. MOSCOW 1625 AND PREVIOUS

[1](#)C. GENEVA 504

Classified By: CHARGE D'AFFAIRES ERIC RUBIN, REASONS 1.4 (B) AND (D)

[1](#)1. (C) Summary. Following President Medvedev's announcement that Russia will continue its individual WTO accession process "in parallel" with formation of a customs union with Belarus and Kazakhstan, Russian officials are now scrambling to find a way to move forward with the WTO without contradicting Putin's desire to form a closer trade relationship with these two neighbors. Russian trade officials are in the process of comparing the tariff schedules and trade regimes of the three countries, with the aim of implementing a unified tariff code on 1 January 2010. The three countries will hold another high-level meeting on August 15, at which they will discuss the findings from this comparison, as well as begin addressing several other outstanding issues related to the customs union. Following the meeting, GOR officials plan to present the U.S., EU and other key delegations with a new proposal on tariffs, as well as a proposed "way forward." Embassy officials emphasized the importance of abiding by previously reach agreements in the WTO process so as not to lose more ground in the accession process. While most economic analysts here view Medvedev's announcement and the apparent change of position as positive, it does raise questions regarding the predictability (or lack thereof) of economic decision-making in Russia. End Summary.

Meeting Two Objectives

[1](#)2. (C) While Medvedev's statement that Russia will continue its individual WTO accession process appeared, on the face of it, to contradict the earlier pronouncement of Prime Minister Putin that Russia intended to join the WTO as part of a customs union with Belarus and Kazakhstan, officials here in Moscow have been careful to emphasize that the two positions are not contradictory. Rather, given the "technical difficulties" of joining the WTO as part of a customs union (ref C), Russia decided to move forward with its WTO accession while also developing closer ties to Belarus and Kazakhstan. According to officials from both the Ministry of Economic Development (MED) and the Ministry of Industry and Trade (MIT), Russia still plans to move forward with the January 1, 2010 entry into force of the customs union with Belarus and Kazakhstan, but is looking at ways of ensuring that this agreement does not stand in the way of any of Russia's commitments made in the WTO context.

[1](#)3. (C) At this point, GOR trade officials have been given the task of trying to meet two objectives that many experts view as contradictory, or at least, highly dissimilar. Maksim

Medvedkov, Russia's lead negotiator on WTO, told us "informally" that Russian negotiators and policy-makers are considering the following course of action: Russia will move ahead with implementation of the customs union as envisaged in the current customs union statements (e.g., tariff harmonization starting in January 2010, with a goal of removing internal customs posts among the three countries by 2011). At the same time, Russia will pursue its individual WTO accession, ensuring that any agreement reached in the WTO context would be in conformity with its obligations under the customs union agreement. Thus, Russia's individual WTO accession process would be slowed as it attempted to balance these two differing interests, but could move forward.

14. (C) According to Medvedkov and his team, they are currently examining the Russian, Kazakh and Belarussian tariff codes, as well as the commitments the countries have made in the course of their respective WTO accession negotiations. Medvedkov noted that most of the tariffs are similar, and that harmonization among the three should be possible by January 1, 2010. MED officials also stressed that the customs union harmonization applies only to trade in goods. It does not/not include services, or any of the other aspects of trade relations covered under the WTO accession process--at least in the first stage.

15. (C) Under the original customs union agreement, the three countries are committed to creating a "common customs space" by January 1, 2011. Customs posts among the three countries would be removed and regulatory policies would be harmonized. A senior MIT official recently noted that the assumption has been that there would not be much difference among the three

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countries' regulatory practices, as they all started from the same Soviet practices and regulations. In doing a comparison, however, they discovered that regulatory practices in all three countries have changed more than expected since the end of the Soviet Union.

16. (C) MED officials also noted that harmonizing the various commitments made by the countries in the WTO accession process may be more difficult than first envisaged, as Russia and Kazakhstan have reached differing agreements on key sectors, such as meat and aircraft. Belarus presents fewer problems as it has not progressed very far in its WTO accession process and, according to the Russian team, is willing to agree to the tariff levels Russia has already negotiated.

17. (C) Medvedkov stated that leaders of the three countries will meet again on August 15. Among the items they will consider is how to deal with the differing tariff agreements in the WTO process. Medvedkov expects that, following the August 15 session, Russia and its partners will present the U.S., EU and other key delegations with a new proposal on tariffs. Econoffs emphasized that the U.S. expects Russia and its partners to abide by all their previously-negotiated agreements in the WTO context, and that we would view re-opening negotiations negatively.

The Decision-Making Process

18. (C) Various GOR officials and well-placed business sector representatives have assured us from the time of Putin's announcement that the decision to stop Russia's WTO accession process wasn't final. Economic liberals, including Finance Minister Kudrin and Presidential Advisor Dvorkovich, have been looking for ways to finesse the situation, allowing Russia to move forward with WTO accession while not overtly contradicting Putin's statement. A preview of this policy change came in Commerce Secretary Locke's meeting with MED Minister Nabiullina on July 7, when she commented that Russia would continue its individual WTO accession negotiations in

parallel with customs union preparations. Nabiullina's subsequent concerns over press reports of her comment showed how sensitive the issue had become inside the GOR. The comments of Putin adviser Ushakov to Ambassador Beyrle July 17 (ref A) indicated that Putin himself not recognizes that the idea to join the WTO as a customs union is too problematic to work.

¶9. (C) Local business and economic analysts have all reacted positively to the announcement that Russia will proceed with WTO accession, which they see as being in Russia's long-term interest. A number of the have, however, raised concerns about the GOR's decision-making process, noting that significant changes in course without warning reduce Russia's credibility with international partners. Moscow-based EC representative Timo Hannerin informed us that, while they think that this is a positive move, they aren't quite sure how seriously to take the various statements, given the turn-around following the St. Petersburg forum where their Trade Commissioner publicly announced EC support for Russia's accession, only to have Putin reject that path immediately thereafter. Non-specialized press has generally remained silent on the matter, after having gone through significant gyrations trying to produce a rationale for Putin's previous decision to favor a customs union over WTO membership.

Comment

¶10. (C) Medvedev's announcement is a first step toward putting Russia back on the path toward WTO accession. The result of efforts by multiple parties, including liberals within the Russian government, Russian and international business representatives, trading partners and WTO members, this action provides an opening to try to recover from what many here view as a mis-step. As the Ambassador's meetings with Presidential Advisor Dvorkovich and Putin Advisor Ushakov clearly indicate (ref A), the Russia government is again prepared to pursue accession to WTO on its own.

¶11. (C) That said, any future Russian policy will need to take into account Putin's concerns regarding trade relations with Belarus and Kazakhstan. Those individuals and interests who lobbied for a go-slow approach to Russia's WTO accession still exist, and are likely to continue to look for ways to

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slow the process down. The Russian government's next task is to present key partners, including the U.S., with a convincing road map on how to proceed with Russia's WTO accession on a parallel track with the customs union. Deputy Prime Minister Shuvalov's up-coming trip to the U.S. (currently planned for September) will provide an opportunity to hear directly from the man charged with moving the Russian WTO accession process forward how he plans on making that happen.

¶12. (C) While some analysts have also raised the possibility of tensions in the Medvedev-Putin relationship over the trade issue, citing what they see as Medvedev's willingness to "contradict" or countermand Putin on WTO accession, it is unlikely that Medvedev made these statements without support from Putin for this modified approach. Careful efforts by senior GOR officials to ensure that the Medvedev and Putin statements are portrayed as mutually supportive reinforce this interpretation. End Comment.

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